



Roper Technologies (ROP)

Updated October 27th, 2018 by Jonathan Weber

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|---------------------------------|-------|
| Current Price: | \$285 | 5 Year CAGR Estimate: | 2.8% | Volatility Percentile: | 14.1% |
| Fair Value Price: | \$211 | 5 Year Growth Estimate: | 8.0% | Momentum Percentile: | 74.0% |
| % Fair Value: | 135% | 5 Year Valuation Multiple Estimate: | -5.8% | Growth Percentile: | 71.3% |
| Dividend Yield: | 0.6% | 5 Year Price Target | \$310 | Valuation Percentile: | 7.7% |
| Dividend Risk Score: | A | Retirement Suitability Score: | C | Total Return Percentile: | 8.2% |

Overview & Current Events

Roper Technologies is a specialized industrial company that manufactures products such as medical and scientific imaging equipment, pumps, and material analysis equipment. Roper Technologies also develops software solutions for the healthcare, transportation, food, energy and water industries. Roper Technologies was founded in 1981 and has a market capitalization of \$27 billion.

Roper Technologies reported its third quarter earnings results on October 22. The company was able to grow its revenues by 13.8% year over year, as its top line hit \$1.3 billion during the third quarter. Growth was based on a strong organic sales increase of 9%, as well as on the impact of Roper Technologies' acquisitions. Through some margin increases and the impact of a lower tax rate Roper Technologies was able to grow its net profits at an even faster rate. The company reported earnings-per-share of \$3.09 for the third quarter. Roper Technologies has also raised its guidance for 2018. The company now expects organic revenue growth of at least 7%. On top of that, its earnings-per-share guidance range has been lifted to \$11.69 - \$11.73, which represents an earnings-per-share growth rate of close to 60% versus the earnings-per-share that were generated during 2017. We have upped our estimates slightly to reflect this.

Growth on a Per-Share Basis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|----------------|
| EPS | \$3.06 | \$2.58 | \$3.34 | \$4.34 | \$4.96 | \$5.65 | \$6.42 | \$6.68 | \$6.43 | \$7.41 | \$11.71 | \$17.21 |
| DPS | \$0.30 | \$0.34 | \$0.40 | \$0.47 | \$0.58 | \$0.70 | \$0.85 | \$1.05 | \$1.25 | \$1.46 | \$1.72 | \$2.85 |
| Shares | 89.7 | 93.7 | 95.3 | 94.7 | 98.6 | 99.6 | 100.4 | 100.9 | 101.7 | 102.5 | 103 | 106 |

Roper Technologies not only has a strong growth outlook for 2018, the company has also successfully grown in the past. Over the last five years Roper Technologies earnings-per-share grew by 8% annually, and earnings have increased in almost every year during the last decade.

Roper's growth has been based on a number of factors. Revenues have been growing organically, which is mainly due to the fact that the software and technology markets that Roper addresses are growth markets, where the company can produce increasing revenues even without growing its market share. The company also has been growing inorganically via acquisitions. Roper Technologies has acquired 10 companies since 2014, including the \$2.8 billion Deltek acquisition that Roper Technologies made in 2016. Roper Technologies' most recent takeover is PowerPlan. This \$1.1 billion acquisition was announced in May 2018 and is expected to generate \$150 million in revenues during the first year after the acquisition has closed. These acquisitions lead to amortization expenses in the years following the respective takeover, which lower's Roper's GAAP earnings, but since those are non-cash expenses it makes sense that Roper Technologies excludes those expenses from its adjusted earnings-per-share numbers.

Valuation Analysis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Now | 2023 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 18.0 | 18.1 | 18.4 | 18.5 | 20.5 | 22.2 | 22.5 | 25.6 | 18.8 | 31.2 | 24.3 | 18.0 |
| Avg. Yld. | 0.5% | 0.7% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% | 0.7% | 0.6% | 0.6% | 0.9% |

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Roper Technologies is a high-quality industrial company with a strong earnings track record. It is not surprising that the market rewards this with an above-average multiple, Roper Technologies has mostly been valued at a price to earnings multiple of slightly above 20 through the last decade. In recent quarters its valuation rose well above that level, and even though Roper Technologies is not as overvalued as it was during 2017, shares still trade at a high premium to fair value. We believe that Roper Technologies is fairly valued at a high-teens price-to-earnings multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| GP/A | 29.9% | 24.0% | 25.3% | 28.6% | 23.6% | 23.0% | 25.0% | 21.2% | 16.3% | 20.3% | 21.0% | 21.0% |
| Debt/A | 49.6% | 44.1% | 45.8% | 39.8% | 47.8% | 48.5% | 43.3% | 47.9% | 59.6% | 52.0% | 51.0% | 50.0% |
| Int. Cov. | 8.1 | 6.8 | 7.7 | 10.5 | 11.2 | 9.6 | 12.7 | 12.2 | 9.5 | 6.7 | 7.5 | 8.0 |
| Payout | 9.8% | 13.2% | 12.0% | 10.8% | 11.7% | 12.4% | 13.2% | 15.7% | 19.4% | 19.7% | 15.0% | 16.9% |
| Std. Dev. | 58.1% | 40.4% | 24.4% | 31.1% | 18.8% | 17.8% | 17.8% | 19.2% | 19.8% | 13.5% | 20.0% | 21.0% |

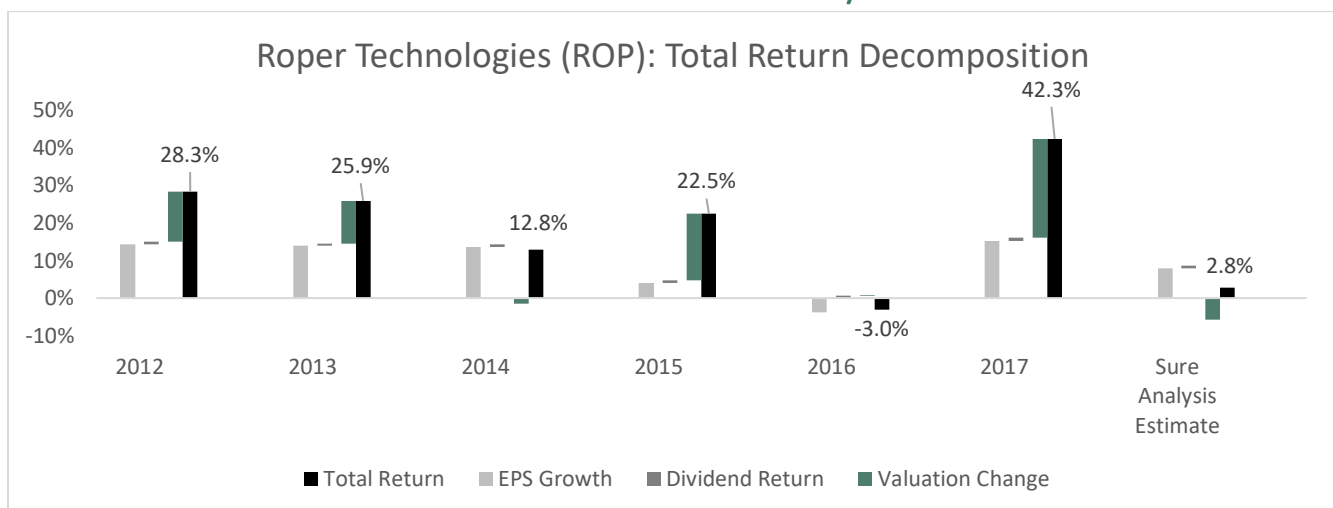
Roper Technologies produces a solid amount of gross profits relative to its assets, which are about 50% financed via debt. The acquisitions Roper Technologies has been making have led to deviations in both the gross profit to asset ratio as well as in the debt to asset ratio. This is especially true for the relatively big Deltek takeover in 2016. Debt levels have been shrinking since, though, and the interest coverage ratio shows that Roper Technologies is not overleveraged.

During the last financial crisis Roper Technologies remained highly profitable, though its earnings did decline by about 15%. Roper Technologies is well positioned in the niches it services, thus there are little competitive risks. It is highly likely that Roper will continue to make acquisitions where such moves are viable, which will further strengthen the company's portfolio and reduce competitive risks at the same time.

Final Thoughts & Recommendation

Roper Technologies is well-positioned in attractive niche markets where it can generate solid organic growth rates. Its strategy of growing inorganically has been a success in the past. This will likely remain the case, even though it could get harder to find attractive takeover targets. Roper Technologies will continue to deliver solid earnings growth rates, but the above-average valuation could be a headwind for total returns over the coming years. Due to the overly high valuation, coupled with basically no total return tailwind from the dividend, shares are a sell right here.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 2306 | 2050 | 2386 | 2797 | 2993 | 3238 | 3549 | 3582 | 3790 | 4607 |
| Gross Profit | 1188 | 1043 | 1275 | 1516 | 1672 | 1883 | 2102 | 2165 | 2332 | 2865 |
| Gross Margin | 51.5% | 50.9% | 53.4% | 54.2% | 55.8% | 58.1% | 59.2% | 60.4% | 61.5% | 62.2% |
| SG&A Exp. | 702 | 648 | 761 | 855 | 914 | 1041 | 1102 | 1137 | 1278 | 1655 |
| D&A Exp. | 101 | 103 | 123 | 140 | 155 | 189 | 197 | 204 | 240 | 345 |
| Operating Profit | 486 | 395 | 514 | 661 | 758 | 842 | 999 | 1028 | 1055 | 1210 |
| Operating Margin | 21.1% | 19.3% | 21.6% | 23.6% | 25.3% | 26.0% | 28.2% | 28.7% | 27.8% | 26.3% |
| Net Profit | 282 | 239 | 323 | 427 | 483 | 538 | 646 | 696 | 659 | 972 |
| Net Margin | 12.2% | 11.7% | 13.5% | 15.3% | 16.1% | 16.6% | 18.2% | 19.4% | 17.4% | 21.1% |
| Free Cash Flow | 404 | 342 | 471 | 561 | 639 | 760 | 800 | 890 | 924 | 1175 |
| Income Tax | 147 | 100 | 126 | 178 | 203 | 216 | 275 | 306 | 282 | 63 |

Balance Sheet Metrics

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------------------|------|------|------|------|------|------|------|-------|-------|-------|
| Total Assets | 3972 | 4328 | 5070 | 5319 | 7071 | 8185 | 8400 | 10168 | 14325 | 14316 |
| Cash & Equivalents | 178 | 168 | 270 | 338 | 371 | 460 | 610 | 779 | 757 | 671 |
| Accounts Receivable | 377 | 382 | 403 | 439 | 526 | 519 | 512 | 488 | 620 | 642 |
| Inventories | 186 | 179 | 179 | 205 | 191 | 205 | 194 | 190 | 182 | 205 |
| Goodwill & Int. Ass. | 2923 | 3257 | 3832 | 3961 | 5568 | 6589 | 6689 | 8354 | 12303 | 12296 |
| Total Liabilities | 1968 | 1906 | 2319 | 2124 | 3383 | 3972 | 3645 | 4869 | 8536 | 7453 |
| Accounts Payable | 122 | 110 | 138 | 142 | 138 | 150 | 144 | 140 | 152 | 171 |
| Long-Term Debt | 1267 | 1154 | 1341 | 1085 | 2022 | 2465 | 2201 | 3271 | 6210 | 5156 |
| Shareholder's Equity | 2004 | 2421 | 2751 | 3195 | 3688 | 4213 | 4755 | 5299 | 5789 | 6864 |
| D/E Ratio | 0.63 | 0.48 | 0.49 | 0.34 | 0.55 | 0.59 | 0.46 | 0.62 | 1.07 | 0.75 |

Profitability & Per Share Metrics

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 7.6% | 5.8% | 6.9% | 8.2% | 7.8% | 7.1% | 7.8% | 7.5% | 5.4% | 6.8% |
| Return on Equity | 14.9% | 10.8% | 12.5% | 14.4% | 14.0% | 13.6% | 14.4% | 13.8% | 11.9% | 15.4% |
| ROIC | 9.2% | 7.0% | 8.4% | 10.2% | 9.7% | 8.7% | 9.5% | 9.0% | 6.4% | 8.1% |
| Shares Out. | 89.7 | 93.7 | 95.3 | 94.7 | 98.6 | 99.6 | 100.4 | 100.9 | 101.7 | 102.5 |
| Revenue/Share | 24.61 | 22.08 | 24.69 | 28.43 | 30.07 | 32.31 | 35.18 | 35.26 | 36.99 | 44.51 |
| FCF/Share | 4.32 | 3.68 | 4.87 | 5.70 | 6.42 | 7.58 | 7.93 | 8.76 | 9.01 | 11.35 |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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